



Rating
Buy

Asia
China

Consumer
Retail / Wholesale Trade

Company
Yonghui Superstores

Reuters 601933.SS Bloomberg 601933 CG Exchange SHH Ticker 601933

Date
13 February 2018

Results

Price at 12 Feb 2018 (CNY)	9.96
Price target - 12mth (CNY)	10.50
52-week range (CNY)	11.58 - 5.04
Shanghai Composite	3,154

2017 results in line

Sales/NP in line with DB/consensus for 2017

Yonghui announced its 2017 preliminary results after market closed today. NP grew by 45.1% to RMB1.8bn, which is in line with both DBe/market consensus. NP margin improved from 2.6% in 2016 to 3.1%. Sales grew 18.61% to RMB58bn, also in line with DB forecast and market consensus.

For 4Q17, sales grew by 24% while NP declined by 4% in 4Q17, which is 4%/8% lower than our expectation. This is mainly due to higher than expected opex ratio which we believe is due to more stores opened in this period.

Figure 1: 2017 results highlights

YE: Dec, RMBm	actual 2017	DB forecast	difference %	consensus	difference %	actual 2016	yoy%
Gross sales	58,395	58,453	-0.1%	58,197	0.3%	49,232	18.6%
NP attributed to shareholders	1,802	1,827	-1.4%	1,844	-2.3%	1,242	45.1%
Net profit margin	3.1%	3.1%	0.0%	3.2%	-0.1%	2.5%	0.6%

Source: Company data, DB estimate, Bloomberg Finance LP

NP growth is mainly attributed to 1) **GPM improvement** resulting from enhanced supply chain management and lower scrap rate for fresh products; 2) **operating leverage** helped by its effective “partnership structure”. Among the regions, Beijing, East China and Sichuan regions outperformed in terms of store efficiency and profitability; 3) **interest income growth**.

In our view, sales growth was mainly driven by **store opening expansion and SSSg**. According to its website, it **net opened 141 stores in 2017** and the total no. of stores reached 597 as of end-2017. This is ahead of its 80-100 guidance. **It also saw SSSg acceleration from 2% in 9M17 to 3% in 4Q17 (DBe)**, despite the late CNY this year, based on our meeting with management before its results black out period.

Going forward, **we believe Yonghui is able to keep the similar store expansion pace in 2018** as it has signed contract with another 170+ stores based on its website. Apart from its traditional Red Label/Green Label supermarkets, it may open more Super Species and Yonghui Life stores with Tencent’s partnership.

Valuation & Risks

Anne Ling

Research Analyst
+852-2203 6177

Louise Li

Research Associate
+852-2203 6152

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-3.2	-3.5	97.2
Shanghai Composite	-8.0	-8.1	-1.4

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	9.3
Net debt/equity (%)	-56.8
Book value/share (CNY)	2.10
Price/book (x)	4.7
Net interest cover (x)	-
Operating profit margin (%)	3.2

Source: Deutsche Bank

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To recap, Tencent announced it would acquire 15% stake of Super Species and Yonghui Life on 16 Dec 2017.

We believe the next catalyst for the company lies on the future business development between Yonghui, its strategic partners, like Tencent (5% in YH) on the integrating its investments in Hongqi (YH invested 21% in the company) and Carrefour China (stake not disclosed). Management announced on 25 Jan that **it might incurred more cost and investment** short term.

We will try to speak with management after the full results were released in the end of Mar and review our model.



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Yonghui Superstores	601933.SS	10.08 (CNY) 13 Feb 2018	NA

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Historical recommendations and target price. Yonghui Superstores (601933.SS)

(as of 02/12/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	04/28/2016	Buy, Target Price Change CNY 11,60 Richard Rui-Huang**	5.	07/18/2017	Buy, Target Price Change CNY 8,20 Anne Ling
2.	06/03/2016	Buy, Target Price Change CNY 5,80 Richard Rui-Huang**	6.	10/09/2017	Buy, Target Price Change CNY 8,90 Anne Ling
3.	08/28/2016	Buy, Target Price Change CNY 5,70 Richard Rui-Huang**	7.	11/01/2017	Buy, Target Price Change CNY 10,14 Anne Ling
4.	04/14/2017	Buy, Target Price Change CNY 6,50 Mark Yuan	8.	01/02/2018	Buy, Target Price Change CNY 10,50 Anne Ling



Equity Rating Key

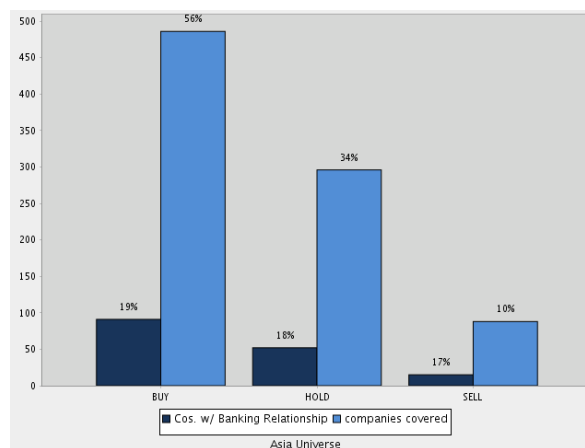
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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Equity rating dispersion and banking relationships





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David Folkerts-Landau

Group Chief Economist and Global Head of Research

Raj Hindocha
Global Chief Operating Officer
Research

Michael Spencer
Head of APAC Research
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Deutsche Bank AG

Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG

Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG

Filiale Hongkong
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.

2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Deutsche Bank AG London

1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500
